ACTUARIAL NOTE
REGULAR SESSION 2009

House Bill 759 HLS 09RS-1018 **Re-Reengrossed /With House Committee Amendments and House Floor Amendments and Senate Committee Amendments** **Author: Representative Greene** **June 18, 2009** **LA # 33.05** **State and Statewide Retirement Systems** **RR1: See actuarial note**	**Preparation of this Note was directed by the Actuarial Services Division of this office** **Steve J. Theriot, CPA** **Legislative Auditor**

<u>Bill Header:</u> Creates the Venture Fund Tax Credit Program to promote investment in early-stage technology companies.

<u>Estimated Fiscal Impact:</u>

EXPENDITURES:	2009-10	2010-11	2011-12	2012-13	2013-14	5 Yr Total
State General fund	0	0	0	0	0	0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	0	0	0	0	0	0

REVENUES	2009-10	2010-11	2011-12	2012-13	2013-14	5 Yr Total
State General fund	0	0	0	0	0	0
Agy Self Generated	0	0	0	0	0	0
Stat Deds/Other	0	0	0	0	0	0
Federal Funds	0	0	0	0	0	0
Local Funds	0	0	0	0	0	0
Annual Total	0	0	0	0	0	0

<u>Purpose</u>:

To enact R.S. 47:6035 to establish the Venture Fund Tax Credit Program; to provide for the participation of Louisiana public retirement systems in the program; to provide for the participation of Louisiana university or college endowments in the program; to provide for tax credits to such systems to offset losses incurred.

<u>Bill Provisions</u>:

Relative to the four State and nine Statewide Retirement Plans to allow each plan to invest in venture capital funds administered by the Department of Economic Development (LED) and to receive tax credits for losses realized from such investments.

<u>Proposed Provisions</u>:

Proposed law provides refundable tax credits against any Louisiana income tax, to La public retirement systems and public or private university and college endowments that realize losses from investments in venture capital funds. The Department of Economic Development (LED) will manage the program. LED will certify the eligible venture capital funds; certify the investments in those funds that are eligible for tax credits; certify the losses incurred and will issue the tax credits to the investing public retirement system, pension fund or university endowment fund that realized losses from investments in venture capital funds. The losses that generate the tax credits cannot be recognized until 5 years after the initial investment in the venture capital fund. The tax credits granted are based on the size of the loss as follows: 100% of losses up to $3 million, 80% of losses between $3 million and $6 million; 60% of losses over $6 million. The total tax credits granted in any calendar year shall not exceed $20 million. No more than 50% of an investment is eligible for tax credit. The amount of $20 million would correspond to actual losses of $30.3 million. LED will determine the method of allocation for available tax credits. If total tax credits granted in any calendar year is less than $20 million, any residual amount of unused credits shall carry forward for use in subsequent years and may be granted in addition to the $20 million allowed for that year.

<u>Actuarial Cost Analysis</u>:

To the extent that investments in a venture capital fund administered by LED would provide investment returns which are in excess of those available to any of the state or statewide retirement systems this would be beneficial and would serve to have a positive impact on required contribution levels, all other things being equal. However, investment in venture capital funds carries special risks including potential lack of liquidity and lack of reliable market value.

The protection afforded by the tax credits provided by proposed law is limited in that it would return only a portion of the total losses. The overall amount of tax credits available to all pension funds and endowments would be subject to the $20 million dollar calendar year limit.

Although we do not have information regarding the potential interest in investment in the venture capital funds provided by proposed law, we would anticipate that it would not be significant in relation to total assets of any one retirement system. Taking this into consideration and recognizing that any losses could not be recognized until 5 years after the date of initial investment, the actuarial cost impact of the provisions of this proposed law is negligible.

Fiscal Impact:

As reported in the Re-reengrossed Fiscal Note for HB 759, LED anticipates that it would not need additional staff to administer the program proposed. It further indicates that should it be necessary for LED to add a staff position, costs would start at about $80,000 per year and increase with time. We have reflected the expenditures projected in the Fiscal Note for HB 759.

Dual Referral Rules:

Estimated Fiscal Impact >= $500,000? **No**

Please See Fiscal Note Issued by the Legislative Fiscal Office for HB 759.